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Hustis, James H.

Statement of
James H. Hustis...

[Boston]

[1917]

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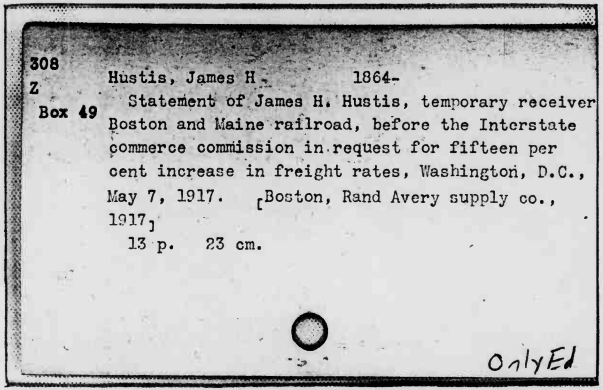

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STATEMENT OF

JAMES H. HUSTIS

Temporary Receiver

BOSTON AND MAINE RAILROAD

BEFORE THE

INTERSTATE COMMERCE COMMISSION

IN REQUEST FOR FIFTEEN PER CENT
INCREASE IN FREIGHT RATES,
WASHINGTON, D. C.,
MAY 7, 1917

June 6, 1917 A&T

The Boston and Maine Railroad consists of twenty-three hundred miles of railroad connecting the business and manufacturing centers of Massachusetts, New Hampshire, Maine, and Vermont with each other, with points in Canada and New York and, through the gateways in New York and Canada, with the West. It carries imports from the seaboard to the West and exports from the West to the seaboard. It extends along the coast of New England for over one hundred miles from Portland to Boston, and connects the coast with the interior. It is of importance, not only to the commerce of peace, but also to the transportation of soldiers and munitions in time of war. It is not now in a condition to perform the duties which it may be called upon to perform either in time of peace or in time of war. At no time in its history has it been more desirable than now that this system should be put in a position to properly serve the public. It is believed that the granting of the 15% increase in freight rates asked in this proceeding will materially assist to bring this about. In order to understand the situation, a brief history of the last sixteen years of its existence is necessary.

Territory served.

Importance of proper service.

While many of the railroads composing

this system are among the earliest of those built in Massachusetts, it is sufficient for the purposes of this hearing to consider the history of the system since these railroads were all united on July 1, 1900. During the sixteen years which have elapsed since then, the ton miles of the system have increased 92% and its passenger miles have increased 26% with practically no change in the mileage of the system; but its facilities have not kept pace with its increased business. This situation has been particularly in evidence during the last eighteen months, when the demand on these facilities has been greater than ever before.

Growth of business.

Lack of facilities.

But the situation is not wholly new, and the investigation of the New England Railroads by your Commission, which began in the spring of 1912, was occasioned principally by alleged bad service on the Boston and Maine Railroad. This investigation was followed by what has been termed a "Conference of Railroad Commissioners," held at the suggestion of your Board. All the members of the Railroad Commissions of Maine, New Hampshire, Vermont, and Massachusetts participated in this conference. The findings of the conference were concurred in by Commissioner Prouty. On November 24, 1913, in the Conference report it is stated that:

1912-1913 investigation.

"The Boston and Maine, upon the basis of its present rates, is bankrupt;"

and further,

"the present financial condition of the Boston and Maine is critical. The most embarrassing feature is that nobody can tell exactly what should be done to protect the just interests of all concerned. It may finally turn out that these properties should be thrown into the hands of a receiver and pass through a process of reorganization, but this would be a calamity which ought to be avoided if possible. Nothing can be done hastily. The present condition was years in the forming and will require years in the correction. For the moment there is need of patience and coöperation. If disaster is to be avoided, all interested parties must exercise forbearance and must undergo temporary inconvenience. . . .

Report of 1913 Conference of Railroad Commissioners

"The public must expect to sustain some part of this burden. It should, perhaps, during this acute stage abate something from the demands which under ordinary circumstances would be reasonable. It should not be taxed for the mismanagement of this property, but it should remember that the cost of furnishing the service now demanded has

increased and that this property is entitled to a fair return. We are satisfied that the section of New England traversed by this railroad desires a high-grade and efficient service and will willingly pay a reasonable price for that service when it can be known what that is."

Report verified.

The prediction of this Conference as to the seriousness of the situation was verified to the extent that on August 29, last, the property was placed in the hands of the Court.

Its prediction as to the calamity that would follow receivership will be further verified unless relief in the way of a substantial increase in rates is afforded.

Reasonable return necessary to avoid dissolution of system.

A process of reorganization is under way, the necessary state legislation having been obtained to make it effective, but unless the properties can be made to earn a reasonable return on their investment, dissolution of the properties to their former parts seems inevitable. If the combined system could not earn a reasonable return, it is obvious that the component parts, when operated separately, would be in a worse position, and the result would be disastrous both to the owners of the property involved and the interests served by them.

Since 1900, the business of the road has shown a steady increase except during the

depressions of 1908–1909 and 1914–1915, but, because of its peculiar financial structure, little has been done towards coordinating the different railroads for system operation because the leased roads would not authorize expenditures beyond their possible requirements under separate operation. There have been two notable exceptions in this respect, the providing of a modern yard and a modern shop at a total expense of approximately five millions of dollars, and the advantages of both have been fully demonstrated during the past two years. But, like all railroads built many years ago, large sums are needed to modernize the property and make it an effective transportation instrumentality. Bridges, many of which are very old, are not of sufficient strength for heavy power. More tracks and sidings must be installed to admit of freer movement of traffic. Yards must be provided for the classification and prompt dispatch of freight. Terminals must be modernized. Engine facilities must be provided to care for heavier power, and, generally, considerable expenditures must be made to provide for changed conditions. Large expenditures must be made on the signal system. The present wooden passenger cars, of which 9% are 40 years old or over; 10%, 30 to 40 years old; and 27%, 20 to 30 years old (or

Large expenditures necessary.

46% 20 or more years old) must, as rapidly as possible, be replaced by modern equipment. Freight cars must be purchased to provide the road's quota of equipment for general use.

Facilities inadequate for present business.

This was the condition of the road in the fall of 1915 when the demands of much increased traffic overtook it, and its inability to take freely from its principal western connections business offered was largely due to inadequate facilities to meet the present demands of traffic.

Present difficulties.

During the past three years the enabling legislation already referred to has been passed and it was hoped that, with such a reorganization, and with the reconstruction of the system financially, good credit would return and the necessary money for making the expenditures already referred to could be obtained, but the Adamson Law followed, and the war followed that.

1916 results abnormal.

The figures for 1916 were abnormal. Revenues increased 11.6% over the previous year, the largest increase of any one year over the preceding year. On the other hand, expenditures for maintenance, while as high as the average for eight years, were lower than would have been the case had there not been an acute shortage of unskilled labor. Fortunately, expenditures for Maintenance of

Way and Structures and for Maintenance of Equipment during 1913, 1914 and 1915 had exceeded the like in any previous year and when shippers diverted freight from regular channels to the Boston and Maine Railroad it was possible to carry a considerable portion of the increased business which was offered. Fixed charges were earned in every month throughout the year for the first time in the history of the road.

Increased cost of operation.

During the past six months, expenses have increased enormously. The effect of the present prices will not be fully felt until another year, but from the best estimate we have been able to obtain, there will be added to the cost of operation for the current year approximately $7,250,000

divided as follows:

Adamson Law and other increases in wages already granted or pending	$2,000,000
(If points of difference now under discussion by committee of eight are decided in favor of employes, this amount will be materially increased.)	
Increased cost of fuel supply	3,150,000
Increased cost of other materials	1,500,000
Increase in rate, 45c to 75c per day, for freight car hire (6 months only)	600,000

While the individual items may change somewhat when actual figures are available, yet it is believed that the total amount of increased expenses for the current year is conservatively stated.

This amount represents 13% on the entire operating revenues for the last calendar year (the largest revenues in the history of the road). On freight revenue alone these increased expenses of $7,250,000 amount to 21½%.

Effect of Adamson Law.

Less than 22% of the employes, and those the higher paid men, were affected by the Adamson Law. Because of the effect of the Adamson Law, and also because of the higher cost of living and the scarcity of labor, it has been necessary to readjust other wages to a higher scale.

As to the matter of fuel, about two-thirds, or approximately one million tons, of the fuel used by the Boston and Maine is received by water. We had two contracts, one of which has recently expired, the other will expire shortly, at 60c and 80c per ton, respectively, for water freight. The best rate we are able to get at the present time for water freight alone is $3.00, and upward, a ton for a one-year contract.

Increased cost of fuel.

As to the price of coal at the mine, the Boston and Maine is now paying $3.15 per

ton, upward, as against an average of $1.25 per ton under former contracts. To what extent or how soon these rates will be reduced is problematical, but the judgment of those qualified to know is that the cost of water transportation and of fuel will remain high for some time.

Increased cost of material.

As to the increased cost of material, we see no immediate prospect of any considerable reduction within the near future.

Increase in rate for hire of freight cars.

There has been an increase in the per diem rate for hire of freight cars from 45c to 75c per day which means practically an addition of one hundred thousand dollars a month since the 15th of December, 1916, and at the present time this is still in force. This was tentatively accepted by the railroad because of representations that a public crisis existed demanding such action.

Based on the traffic for the calendar year 1916, which considerably exceeded the figures for any other year in the history of the road, the proposed increase in freight rates would add approximately four million, six hundred thousand dollars to the freight revenue of the Boston and Maine. It has already been pointed out that the estimated increase in expenses for the current year, based on the same amount of traffic as the previous year, will amount to about seven million, two hundred and fifty thousand.

Proposed increase in freight rates will not meet increased cost of operation.

The increase in the expenses as estimated will, therefore, exceed the estimated increase in revenue by two million, six hundred and fifty thousand dollars a year at the present time. For the calendar year 1916, the Boston and Maine's balance, after payment of fixed charges with no dividends, amounted to less than four million, eight hundred thousand dollars, which was the largest balance in the history of the road.

From this it is evident that the Boston and Maine not only needs the proposed increase of 15% in freight rates now under discussion, but considerably more, if its credit is to be restored, and it expects to apply to the Commission in the immediate future for further changes to meet its particular requirements. But it has felt that this application for a horizontal increase of 15% lies at the threshold of the case, ought to have precedence, and should not be complicated by the peculiar situation of the New England roads.

Boston and Maine efficiency essential to New England.

The efficiency of the Boston and Maine Railroad system is essential to the prosperity of that portion of the New England States through which it passes. It is also essential to the proper protection of the coast and of the population in time of war. The system can only be made efficient by the expenditure of large sums of money, and these sums can only

be obtained by making good the credit of the system.

There is but one source from which this credit can come and that is the assurance that the receipts from fares and freight will be sufficient to meet the interest upon the money invested in the property. It is confidently believed that the people of New England, and the people of the United States generally, are ready to have rates and fares put at a figure which shall ensure a proper income to the railroads which serve them. The people realize that an efficient railroad system is of very great pecuniary value in business and to manufacturers.

If the dictates of public opinion are to be followed; if the population and property of New England are to be protected from a foreign enemy in time of war; if the manufacturer, shipper, and consumer of New England and of the United States are to be furnished with proper railroad facilities, this increase now sought for is an absolute necessity.

RAND AVERY SUPPLY CO., BOSTON. 1120

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